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GENERAL

1. Peiping reported to have proposed diplomatic relations with Nepal:

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Nepal has received a communication from Peiping via the Chinese Communist and Nepalese ambassadors in New Delhi proposing establishment of "normal diplomatic relations" between the two governments, according to press reports from Katmandu published in New Delhi on 2 October. The reports state that the Nepalese government's reply to Peiping indicates willingness to sign a treaty of friendship.

Comment: India has been anxious to prevent Chinese diplomats from operating in Nepal, but recent reports suggest that its opposition to the establishment of diplomatic relations between China and Nepal is weakening. If earlier reports are reliable, the Chinese and Nepalese ambassadors in New Delhi will be accredited to Katmandu and Peiping respectively. Establishment of relations would not necessarily mean the immediate opening of a Chinese chancery in Katmandu.

Peiping probably considers Nepal the best target among the Indian border states for greater Communist pressure.

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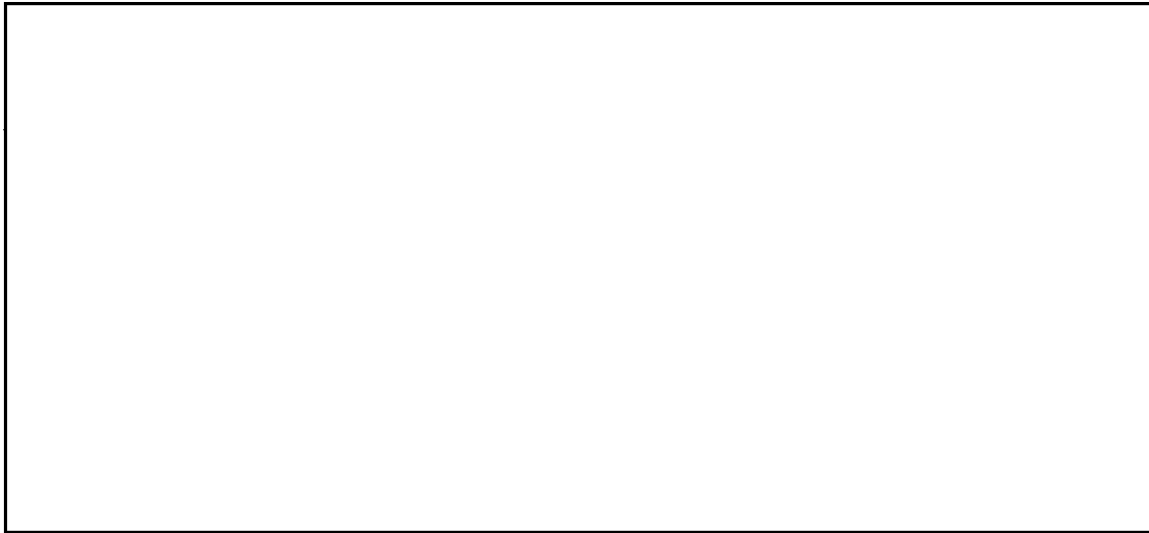
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FAR EAST

3. Threat of Communist attacks in Quemoy area reported:

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The Chinese Nationalist commander on the Quemoy reports an increase in the number of Chinese Communist artillery positions on the mainland south

of Amoy Island, and says troops are concentrating in the same area. He also reports that the Communists have been using 20 motorized junks to carry out landing exercises on Wuhsu Island, six miles south of Amoy.

These developments lead American observers to believe there is a "distinct possibility" of a Communist invasion of smaller Nationalist-held islands in the area-- Little Quemoy and Tatan and Erhtan, two very small islands to the southwest.

Comment: Capture of the lightly defended Tatan and Erhtan Islands would be of little strategic value to the Communists, but would enable Peiping to gain face in the current Quemoy operations. As it would be difficult for the Communists to hold Little Quemoy in the face of Nationalist air attacks and artillery fire from Big Quemoy, any attack on Little Quemoy might be followed quickly by an assault on Big Quemoy.

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Chiang Ching-kuo, son of the Nationalist generalissimo, believes the current threat to the Quemoy Islands is a Communist feint, and that the real Communist intent is to attack and seize the Tachen Islands. Peiping, however, has the capability of mounting major attacks on any or all of the larger Nationalist islands, and could strike simultaneously against more than one.

SOUTHEAST ASIA

4. Requisitioning of American consular residence in Hanoi anticipated:

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The Viet Minh authorities will eventually oust the American consul in Hanoi from the consular residence, a French official in Hanoi believes. The Viet Minh has already refused French officials permission to retain a residence they own in the vicinity of the American consular residence on the ground that all French officials should be housed in an area where they will be "easy to protect."

Comment: Viet Minh treatment of American officials may reflect the position that United States' representation in Hanoi is unnecessary because of the absence of tangible American interests.